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## The Value Chain Perspective in the Modernization of the National Employment Service:

An Attempt to Combine Hierarchical and Modular Forms of Coordination

### Introduction

Following the guidelines laid down by the “WORKS Case Study Matrix: Sectors and Business Functions,” the Hungarian Research Team selected the National Employment Service (in Hungarian: *Allami Foglalkoztatási Szolgálat*, its Hungarian acronym: *AFSZ*) and its related customer service. In this case, customer service helps match the demands of clients from both the demand (employers’ needs) and supply sides (needs of job seekers or unemployed) of the labor market.

To better understand the role and the recent restructuring (modernization) of the AFSZ, it is necessary to briefly outline the history and functioning of this institution. The creation of the AFSZ is intimately related to the radical shift from the state–socialist political–economic regime (characterized by full–employment) to the market economy (characterized by fluctuating demand and supply sides of the labor market). This nationwide system was built up under the pressure of a sky–rocketing rate of unemployment. For example, in 1990 the number of unemployed was 47,700, which became tenfold higher within two years (for more details see Appendix 3). The institutional build–up of the AFSZ followed these unprecedented changes in the labor market: during the same period of time (1990–1992) the number of staff increased from 500–600 persons to 5,500 persons, 173 local labor market offices were created, together with 20 county–level labor market centers and 9 regional training centers aimed at training the fast growing number of unemployed. The coordination of the whole of activity of the AFSZ is carried out on the following three levels. At the national level, financial resources are allocated by a tripartite institution called the “National Board of the Labor Market Fund” (in Hun-

**Figure 1:** The Governance or Coordination Structure of the AFSZ

garian: *Munkaerőpiaci Alap Irányító Testülete; MAT*).<sup>1</sup> Strategic decisions targeting the activities of the AFSZ are taken by the Ministry of Labor. Executive roles related to professional–methodological and information services as well as administrative coordination, complete with such HRM tasks as training and re–training, wage formation, etc., are exercised by the National Employment Office (in Hungarian: *Állami Foglalkoztatási Hivatal; AFH*). At the meso–level, coordination of the AFSZ is carried out by county–level Labor Market Centers. Finally, local level services are provided by the network of local Labor Market Offices. The above diagram illustrates the stylized version of the governance or coordination structure of AFSZ<sup>2</sup>

The AFSZ was established at the beginning of the 1990s to fulfil the following main functions:

1. Registration of unemployed and allocation of unemployment benefits for the persons concerned.

1 MAT is a tripartite institution of self–governance, regrouping members from the government, employers' and employees' interest representation bodies, exercising rights and obligations related to the use of the Labor Market Fund.

2 In spite of changes at the ministerial level in the field of social affairs and labor, the basic organizational architecture of the Public Employment Service (AFSZ), illustrated by Figure 1, did not change during the last 15 years.



- Offering jobs and the necessary counseling services for the potential employees contacting the service.
- Registration of the manpower needs of employers and the supply of necessary manpower.
- Organizing the tools of active labor market policy (training, re-training, etc.).
- Designing and organizing special programs for socially or physically handicapped groups of unemployed in order to speed up their integration into the labor market.
- Other special activities (e.g. employment related administration of foreign citizens).

The above listed activities of the AFSZ can be regrouped into two clusters of functions. The first cluster of activities consists of tasks of “administrative” character (e.g. registration of unemployed, administering and allocating unemployment benefits, etc.), the second cluster of activities contains such “service-type” tasks as counseling, identifying the needs and attitudes of the job-seekers, conducting psychological interviews, developing job profiles, etc. Beside distinguishing these two clusters of functions, it is necessary to make a distinction between the main clients. The most numerous group of clients is represented by the job seekers or unemployed, while employers represent the second type of client. Table 1 summarizes both the content of the main functions and the types of clients.

Table 1: Functions and Clients of the AFSZ

FUNCTIONS	CLIENTS		
	Employers	Job-seekers	
	Service	Labor market prognosis, online database of job-seekers	Counseling, job-profiling
	Administrative	Registration of labor demands (obligatory by law)	Registration, allocating unemployment benefits

In evaluating the development that has taken place in both the Hungarian economy and in related labor market movements, it is worth calling attention to the following changes of the last one and a half decade. From the second half of the 1990s labor market pressure has visibly weakened: the two digit unemployment rate has decreased below 10%. Secondly, the composition of clients has become more heterogeneous. One essential dimension of this heterogeneity is the unequal character of employment opportunities, working and wage conditions according to ownership structure, pattern of corporate governance, sector of activities, and by the regional location of firms. Thirdly, with the diminishing pressure of the highly volatile labor market—e.g. stabilization of the number of registered unemployed from the year 2000—besides the fulfillment of the “administrative” obligations of the AFSZ, the service orientation or client-orientated approach has gained more importance. This shift in the functions of the AFSZ is one of the most im-



portant drivers of the “modernization project” of the AFSZ (from 2003 onwards) and will be analyzed in detail later.

The case study comprises the following sections:

1. A brief overview of the AFSZ before the modernization process (adequate response to an urgent situation: institutionalization at the expense of professionalization).
2. Drivers, actors and the process of the restructuring of the AFSZ [“Modernization Project” – MP; 2002].
3. Outcomes of the modernization process (standardization of activities and increasing client orientation).
4. Modernization process of the AFSZ: An attempt to interpret restructuring from the perspective of the value chain approach.
5. Concluding remarks.

### **Antecedents of the Modernization of the National Employment Service (AFSZ): Institutionalization at the Expense of Professionalization (The 1990s’ Period)**

The national network of the AFSZ (comprising 173 local labor market offices, 20 county-level regional labor centers, and 9 regional training centers, see Figure 1) was created within an extremely short period of time. As has been mentioned in the introductory section, in the first year of AFSZ (1991) activity, the number of employees varied between 500 and 600; within two years this number increased tenfold. This extremely fast institutional build-up required the implementation of the necessary technological and organizational infrastructure as well as knowledge consistent with their efficient use aimed at fulfilling the double function (administrative and service) of the AFSZ. Due to time-related pressure represented by the extremely high unemployment rate, relying on institutional transfer from mature market economies to solve the problem of knowledge deficiency seemed to be an obvious solution. The following quotation illustrates the approach used in institutional transfer during the early-1990s at the AFSZ:

*Between 1991 and 1994, Hungarian Employment Law adopted a large scale of active employment policy solutions with the cooperation of experts coming from all over the Western world. According to the knowledge at our disposal today, maybe it was too large a scale. We adopted practices from Canada, the United States, Germany, France, Denmark, Sweden, and Austria [...] These practices were adopted despite our protests against them and all our efforts to impede this mechanical application of ready made foreign practices [...] we aimed at implementing the existing practices by transforming them into the Hungarian context. These efforts were finally successful, however, we did not succeed in reducing the number of our “products.”*

[Chief Advisor, National Employment Service]



The approach expressed by the interview indicates that the institutional transfer was organized in the perspective of “intelligent” or “reflexive” benchmarking.<sup>3</sup> In spite of the fact that the institutional transfer was exempt from mechanical adoption, the continuous implementation of new forms of active employment policy practices resulted in the number of “products” offered by the AFSZ becoming unmanageably high. Beside of this shortcoming, worth stressing is the following weakness of the new institution. Using the metaphor of path dependency, we have to mention the lack of recognition of the changing characteristics of clients following the transformation from a planned to a market economy.

The AFSZ did not take into account the fact that due to the privatization and restructuring of the former state-owned economy, micro and small firms (SMEs) became one of the most important clients. In spite of this radical change in the composition of the clients, the tools of data collection (e.g. the structure of questionnaires) were not revised or improved until the period of modernization started in 2000. Another example is the outdated database of job-seekers: only such static and easily measurable characteristics were registered as level of education, age, length of service, while such dynamic elements of employment as working experiences, competencies, etc. were almost completely missing.

Another result of this fast institutional building was the lack of systematic planning and development of human resources. For example, the employees of the AFSZ were recruited on an ad-hoc basis, they were often chosen from the pool of highly qualified unemployed having heterogeneous qualifications (engineers, teachers, etc.). In addition, there was no systematically designed internal training or further training programs for the staff of the AFSZ. Due to this shortcoming, skill and knowledge development was based mainly on the practice of “learning on the job” (OJT), “learning by interacting,” or “learning by practicing.”

3 “Reflexive benchmarking, or intelligent benchmarking as it is also called ... it is less about deciding ‘what is best’ or ‘what universal truth’ can be derived from comparison. The identification of a ‘best practice’ is not the primary goal of reflexive benchmarking; instead it has to do with getting to know more about various institutional solutions in different economic structures. Particularly in a situation of fundamental transformation processes, mechanistic benchmarking is hardly possible, as institutions are becoming increasingly fragile. The aim of reflexive benchmarking is to be able to gain a better understanding of one’s own solutions, their strengths and weaknesses, when seen in light of what others do, and what options they see. Such an understanding can cause policy-makers to assess institutional solutions of their own system much more critically and may help them to deliberately imagine and act on different strategies.” [Schienstock, G. (2004) “From Path Dependency to Path Creation: A New Challenge to the Systems of Innovation Approach,” in Schienstock, G. (Editor) *Embracing the Knowledge Economy*, (The Dynamic Transformation of the Finnish Innovation System), London: Edward Elgar, p. 18.]



*Because of the fast growth of the AFSZ, two issues were undertaken with only a low level of effectiveness or low level of quality assurance. Firstly, the definition, standardization of our products and secondly, the training of our employees. Up to now, we could not create our own internal training system.*

[Chief Advisor, National Employment Service]

Although, we do not have precise quantitative data on this issue, the empirical experiences learned from interviews carried out in different local labor market offices, located in various labor market contexts of the country, suggest that the employees of the AFSZ have rather weak mobility due to their sector or organization-embedded skills. It is rather difficult to use or convert their skills into other sectors of activity.

Also worth mentioning is the fact that the AFSZ is embedded in the Hungarian public administration system and culture. The services offered by this organization follow the logic of administrative procedures. This means that the activities (both the tasks and the procedures) are regulated strictly and in details by law. Besides strong administrative regulation, which by its logic creates stability for the actors operating in the system, it is necessary to make an allusion to the instability of the regulations themselves. In other words, the often changing legal environment regulating the activity of the AFSZ creates uncertainty for any kind of restructuring or development of its services. One of our interviewees reported that dozens of laws have to be studied and observed in order to ensure the proper operation of the AFSZ.

This means that practically each of the services that the AFSZ offers has detailed rules of procedures. If we take into consideration that there are 42 products/services offered by the AFSZ it is not at all surprising that the volume of the procedural rules reach a volume of several hundred pages. Therefore, due to the dominance of the logic of administrative regulation instead of the clients' needs, standardization efforts could not substantially improve the quality of services. This failed attempt to improve service quality via standardization can be illustrated by the following quotation:

*(...) products, services, are defined from the point of view of the public administration. This means that first the law has to be adopted, then a more detailed ministerial decree is issued, and then—on the basis of these two—the inner rules of procedure are elaborated. This is very bureaucratic. Everything has to be completely proper because, in the case of any appeal, our decisions have to be defended in the eyes of law. This is a false logic, because our products have to be defined from the point of view of their aims, to ensure that these products can help unemployed persons become employees or to ameliorate their employability.*

[Chief Advisor, National Employment Service]



## Drivers of the Restructuring of the AFSZ

In order to understand the aims, the process, and the outcomes of the Modernization Project of the AFSZ (MP), it is necessary to briefly overview the drivers of these changes created by this restructuring of the Employment Service.

One of the most important external drivers was preparation for the accession process of Hungary to the EU and the impact of the first Lisbon summit (2000). It was agreed at the Lisbon summit that the EU member states have to reach a 70% employment rate by 2010. In this respect Hungary is in an unfavorable situation among the EU-25 countries. Among the New Member States, the Hungarian employment (activity) rate is the third lowest one. At the beginning of the MP (2002) it was as low as 56.2%, but by 2005 it improved only modestly and reached 56.9%<sup>4</sup>.

An additional external factor stimulating the MP was the fact that in other Accession Countries various kinds of restructuring of Employment Services had already been implemented, which represented an increasing competitive challenge for the Hungarian National Employment Service. The availability of such EU resources as PHARE, the Operative Program for Human Resource Development, etc. played a significant facilitator role by opening additional knowledge and financial resources for the modernization of the AFSZ.

*The Executive Director of the Employment Service always took part in the yearly conferences of the European National Employment Services. At these meetings the participants often mentioned the modernization process of the public services initiated by other candidate countries and they expressed their intention to avoid the trailing edge position for the Hungarian Employment Service.*  
[Director, X-County Labor Market Center]

Among the external drivers of the MP we have to mention the changing labor market situation as well as the administrative workload that was the result of the growing bureaucratization of the Service. With respect to the changing labor market movement, we have to stress decreasing unemployment (see Annex 3) and its impact in improving the quality of the services offered by the AFSZ. At the same time, the increased bureaucratic workload of the customer services of the AFSZ allowed neither the time nor energy for the staff of the Local Labor Market Offices to focus on customer orientated services. The

4 The lowest employment rate was registered in Malta (2002: 54.4%; 2005: 53.9%) and in Poland (2002: 51.5%; 2005: 52.8%). During the same period of time, the EU-15 average was 64.2% and 65.2, respectively. This means the difference between the employment rate of the EU-15 vs. Hungary changed from 8% (2002) to 8.3% (2005.) – Datasource: Eurostat Labor Force Survey, available in the online Eurostat database.



negative impact of the high administrative workload is well illustrated in the following quotation:

*This amount of bureaucracy is awful. I think it is natural that we have paperwork, but I do not understand why it is necessary to work with so high an amount of paper if we use computers at the same time? (...) In the last few years the number of unemployed has decreased and the number of the administrative stuff was adjusted to this low level, but everybody seems to have forgotten that during the same period of time the administrative workload has increased five times higher.*

[Office Head, Local Labor Office]

In addition, new service suppliers also appeared on the Hungarian labor market and their activities generated competitive pressure on the AFSZ.

The internal drivers of the MP consist of the following factors: deteriorated physical and IT infrastructure, lack of nationally available standardized services, shift from an administrative to customer-orientated role.

Regarding the deterioration of the physical infrastructure, we have to stress that the physical infrastructure (e.g. the office design, space, and furniture) was not renewed, upgraded, or redesigned since the creation of the AFSZ. The development and the functioning of the ICT infrastructure did not respect the interrelated character of the various regional labor markets: If a job-seeker contacted the local labor office, the staff of the service could only offer jobs on the basis of the county-level database. The employees of the AFSZ responsible for the job offer were not informed about any available jobs outside the county in which the office operated. In other words, the lack of an integrated IT infrastructure connecting the 173 local labor offices of the AFSZ weakened the efficiency of its activities.

Another important driver of the MP was the intention to combine the improvement of quality with the standardization of services. The core motif of these efforts was to guarantee equal access for all job-seekers to get high quality services, independent of the significant regional inequalities characterizing the country.

*In order to ensure equal opportunities for job seekers independently of their local labor market situation, we decided to launch a type of modernization process that would guarantee s access to the same quality services in all local labor offices to all job-seeker. In my view this was the key factor explaining the modernization.*

[Chief Advisor, National Employment Service]

Beside guaranteeing equality of access to high quality services, the introduction of the principle of "self-service" for job-seekers was the other driver behind the initiative of the MP of the AFSZ. The following table summarizes the groups of drivers briefly outlined in this section.



Table 2: Drivers of AFSZ Modernization

DRIVERS	
External	Internal
Impact of EU-accession and the spirit of the first Lisbon Summit,	Diminishing the administrative workload
Modernization of the Employment Services in other Accession States	Overused, deteriorated physical infrastructure
Changing labor market conditions	Need for an integrated IT infrastructure
Availability of new EU financial resources (PHARE, Operative Program for Human Resource Development)	Need to create equal access to standardized quality services nationwide
Increasing bureaucratic workload*	Implementation of the self-service principle
Appearance of private manpower agencies	Need to improve the client-orientation
	The guaranteeing of equal chances for the job-seekers (standardized services)

\* The legal environment regulating the activities of the local Labor Market Offices.

The Modernization Process and Its Main Outcomes: Standardization of Activities and Improved Client Orientation

The Modernization Process (MP) was launched in 2002 within the framework of a PHARE project with the cooperation of Swedish and Danish labor experts. The project consisted of six sub-components: service development, labor market information system, development of physical infrastructure (offices), training, quality assurance, and information technology. A working group was established for each of these sub-components. Members of those working groups were recruited mainly from the staff of the AFSZ. Their main task was to draft a development strategy and to coordinate its implementation. These sub-components reflect the main challenges the AFSZ had to face that were presented in more detail in the previous section—the internal drivers of the MP. The WORKS project is aimed at analyzing and assessing various business functions using the analytical Value Chain approach. Among these business functions, the present case study will analyze customer service.

The MP is composed of three steps, the first one (PHARE project: 2003–2005) was an expert review of the whole service structure of the AFSZ, including its main functions, the daily operation of the local labor market offices, their physical infrastructure, as well as the environment in which the AFSZ is located (e.g. characteristics of unemployment, legal regulations, Internet use in Hungary, etc.). This analysis was complemented by two



market surveys aimed at identifying the needs of employers and job-seekers with respect to the AFSZ. On the basis of the conclusions of the expert review and the market surveys, a New Service Model-based modernization process was elaborated and implemented in 20 pre-selected local labor market offices. However, some developments were initiated in the whole network of the AFSZ—e.g. a new IT infrastructure with a network-based common database introduced in each local labor market office.

In the second step of the MP (Human Resource Development Operative Program: 2005–2007), 60 additional local labor market offices were selected to introduce the New Service Model.

The third step of the MP (Human Resource Development Operative Program: 2007–2013) is being prepared and aims at implementing the New Service Model (NSM) in all remaining local labor market offices.

In our analysis we intend to identify the key characteristics of the MP covering the 2003–2005 period as well as assess its major outcomes.

The core aim of the MP was to create a nationwide, integrated system of local labor market offices characterized by high quality services (improved client orientation) delivered to individual job-seekers and employers, too. This aim of the MP is summarized well by the director of the X County Labor Market Center: (...) *[the AFSZ] functions as 173 different retail trade units with two or three sellers where if a client appears, the client says what he/she wants to buy and the seller seeks this “product” on the shelf, giving it to the client. Our experts recommended transforming this system into a self-service one, where the client can reach the “products” without the intervention of sellers, but where if the client needs help in choosing the kind of “product” with the kind of parameters required by the client, assistance is available for the asking.*

[Director, X-County Labor Market Center]

This brief extract quoted from the interview illustrates in a rather simplified way the “before” and “after” situation of the MP. To better understand both the nature and the outcome of this process, we highlight some of the changes using the following key components<sup>5</sup>:

5 The sub-component of Service Development is made up of the following elements: CV submission via Internet, job offer registration via Internet, survey regarding the short-term plans of employers in their manpower use, quarterly labor market report, introduction of a method of proofing, signing cooperation contracts with the job-seekers, signing service contracts with the employers, renewing the form and the content of cooperation with the employers, description of different labor processes (labor process in self-information spaces, labor process in the task of job mediation, labor process in counseling, labor process in tasks related to the obligations of the authorities). Unfortunately, we do not have enough space to develop all of these elements in detail, therefore we have selected some illustrative ones. Source: [Vladiszavlyev, A. (*et al.*) (2003).]



1. Service
  2. Integrated database and ICT infrastructure
  3. Physical infrastructure
  4. Training and further training of the employees of the AFSZ
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1. Restructuring of the service activity in the various local labor market offices: Standardization and homogenization of the service required significant changes in relation to various activities and the exploitation of the available database. In relation to the standardization of activities, the local labor market offices participating in the MP designed a new “information space” consisting of not only information kiosks and PCs equipped with touchscreens, but with keyboards to help job-seekers write CVs and post them in an integrated database. Using this self-service principle in relation to the job-seekers, the employees of the local labor market offices will have more time to take care the personal and noncodifiable problems of the clients. Besides the individual job-seekers, the other important clients of the AFSZ are employers. In their case, the higher quality service required the creation of up-to-date and user-friendly labor market forecasts as well as closer cooperation among them and the local labor market offices.
  2. In restructuring the existing database and the disintegrated ICT infrastructure in relation to the MP we wish to call attention to the following changes: With respect to job seekers, they were asked to prepare their CVs electronically in order to integrate them into the nationwide database of the AFSZ. In order to facilitate and speed up the registration of new job offers, they used a simplified (time saving) registration format for employers and introduced the potential of Internet-based job registration. Through these changes—similar to those of the job-seekers’ database—the employers’ database became a part of a nationally integrated database.
  3. In the section dealing with the antecedents of the modernization of the AFSZ, we already referred to the over-used and deteriorated physical infrastructure. In design, collective office spaces replaced individual ones in order to improve the quality of communications with clients and among the staff-members of the AFSZ. Moreover, the aesthetics of the workplaces was significantly improved.
  4. The systematic planning of formal training and further training activity designed for the staff-members was the weakest element of the AFSZ from its creation until today. In spite of the fact that training and further training represent a distinct sub-component (work package) within the MP, nothing happened in this field until now. This underestimation of the role of formal training is rather surprising in such a transformation process that requires appropriation of not only the skills necessary to increased use of ICT, but new working methods and the combination of the vari-



ous kinds of knowledge. The underdeveloped nature of formal training also means that newcomers to the AFSZ do not participate in any kind of formal training. However, the unfavorable status of the formal training system in the local labor market offices does not mean a lack of knowledge development, sharing, and transfer among staff members. During the interviews, several staff members indicated the crucial role of such types of on-the-job-training (OJT) training that has no officially organized form: learning by practicing, learning by interacting, etc.<sup>6</sup>

### The Modernization Process of the AFSZ: An Attempt to Interpret Restructuring from the Perspective of the Value Chain Approach

This section analyses the MP using the concept of the Value Chain (VC). Before outlining the key characteristics of this restructuring, it is necessary to note that the great majority of studies used the VC or Global Value Chain (GVC) approach to describe restructuring in industrial and retailer activities.<sup>7</sup> We did not succeed in finding any attempt at using the VC as an analytical framework to analyze restructuring processes within the services of the public administration. In spite of this shortcoming, after reviewing the seminal papers of VC literature, we selected the following critical dimensions of the VC to analyze the MP.<sup>8</sup>

1. **Spatial scale:** The spatial or geographical scale of the VC indicates the scale of operations. In this relation, the following localities are distinguished: local, domestic, international, regional, and global.

6 "When a new colleague appears, my technique is that I make him/her sit in front of the computer and I tell him/her what to do. Many of my colleagues dictate and the newcomer has to take notes, listening to what has to be done and how. In my opinion this is an inefficient process. I usually tell new colleagues: 'Believe me, if you are sitting next to me and if you do what I tell you to, in two or three days you will be able to work independently.' To tell the truth, I cannot give a precise time limit in which one can learn everything. Everybody uses different methods to teach the newcomers."

7 Beside the term VC, research on industrial activities often uses such terms as *commodity chain*, *activities chain*, *production network*, *value network*, and *input-output analysis* [Sturgeon, 2001, p. 2.]. In literature, according to the logic of various sciences (economics, geography, sociology), there are different definitions while the necessary consensus on the notion, validity, reliability, and comparability of indicators to measure is still missing. Among the various definitions, the following one was best suited for our empirical analysis. The value chain "(...) describes the full range of activities that are required to bring a product from its conception to its end use and beyond. This included activities such as design, production, marketing, distribution and support to the final consumer. The activities that comprise a value chain can be contained within a single firm or divided among different firms. Value chain activities can be contained within a single geographical location or spread over wider areas. (<http://www.globalvaluechains.org/concepts/index.html>)

8 [Sturgeon (2001:1–7), Gereffý – Humphrey – Sturgeon (2003: 6–7), Gereffý (*et al.*) (2005:87).]



2. **Organizational scale:** This dimension covers the whole range of activities required to create particular sets of products and services and then deliver them to clients. In relation to the content of the organizational scale, Sturgeon (2001, p. 3.) distinguishes the following important inputs: human resources, infrastructure, capital equipment, and services.
3. **Productive actors:** In relation to this dimension, we cannot mechanically adopt the categorization of actors participating in production networks designed for industrial or retail activities. In the case of the modernization of the AFSZ, we consider as actors those participants who are involved in the labor process of service provision.
4. **Types of coordination:** In the literature of VC governance, the following five patterns of governance or coordination of VC are distinguished:<sup>9</sup>
  - a. *Markets*: Due to low complexity of information exchange, transactions are not only easily codified, but governed with little coordination. Costs of changing partners are low.
  - b. *Modular VCs*: There are slight differences between this type of coordination and the previous (market) one. This can be explained by the ability to codify the unifying components of products or services. As a result, little explicit coordination and low switching costs characterize this type of coordination of the VC.
  - c. *Relational VCs*: This form of coordination arises when it is difficult to specify products or services due to the complexity of transactions within the VC. Due to the key role of the use of tacit knowledge between the partners involved in the VC, coordination is based on the reciprocity relations (supported by ethnic ties, family relations, common working experiences, etc.). This type of coordination can be characterized by the high costs of switching partners.
  - d. *Captive VCs*: This is the case when in the VC the suppliers have at their disposal only a low level of competence, and require significant intervention and monitoring (control) on the part of the lead firm in producing complex products and services. Switching costs for suppliers are rather higher.
  - e. *Hierarchy*: This form of coordination functions efficiently when products or services are complex and require a significant share of tacit knowledge. In addition,

<sup>9</sup> The classification of coordination patterns of the VCs is determined by the following factors: "1. *Complexity* of information and knowledge transfer required to sustain a particular transaction, particularly with respect to product and process specifications; 2. The extent to which this information and knowledge can be *codified* and, therefore, transmitted efficiently and without transaction-specific investment between parties to the transactions; 3. The *capabilities* of actual and potential suppliers in relation to the requirements of the transactions." [Gereff - Humphrey - Sturgeon, 2003:6]



there is a shortage of highly competent partners or suppliers. Therefore, the “lead firms” are forced to design and produce services or products in-house.

Applying these dimensions of the VC to the MP of the AFSZ, we intend to analyze the process of change comparing the situation of the modernization before and after. As to the spatial scale, prior to the briefly presented restructuring process of the AFSZ, the activities of the local labor market offices were organized separately, without linking the 173 local units of the AFSZ. Due to this fact, in spite of the nationwide network of the AFSZ, in practice it did not function in the form of a domestic scale VC. One of the most significant outcomes of the MP was the establishment of an integrated, domestically organized VC. The creation of the domestic scale network of the local labor market offices was based on the design and implementation of an integrated ICT infrastructure and database.

In relation to the organization scale dimension of the VC, we intend to analyze the following critical inputs: content of services, human resources, the ICT, and physical infrastructure. In other words, the combination of these inputs represents the labor process itself in the activities of the AFSZ. In discussing the changes in various elements of the labor process, we intend to focus—due to its core role—on the transformation of services. Before analyzing the situation of the restructuring process “before” and “after,” it is necessary to make a distinction between the two major components of the services: the database and the patterns of relations with the clients. The characteristics of the database before restructuring: the database of the 173 local labor market offices was only integrated at the county-level (i.e. 20 counties maintained their own database system), the refreshment of the database was rather slow, and the structure of the database was inconsistent with the requirements of such key clients as employers. As a result of the restructuring process, it is important to highlight a series of transformations. The development of the ICT infrastructure within the framework of the MP established a single, unified, nationwide, integrated database instead of the segmented (county-level) system of databases. The annual labor market information system (including a prognosis available for the employers without charge) was replaced—after the MP—by a quarterly organized one. In addition to the renewal of the employers’ database, also re-designed was the job-seekers’ database. The old database contained information on such “proxy-indicators” of qualification as level of education, type of diploma, etc., for example. However, due to the significant changes in the landscape of the Hungarian economy (i.e. increased competition), employers want to know more about the competencies of job-seekers. After the MP, the CVs written by the job-seekers themselves became the main source of the competence-based dataset.

The other important dimension of the restructuring of services was the introduction of the self-service model in the client relations of the AFSZ. Before presenting the changes and their impacts in that field, it is worth calling attention to the mutuality of relations be-



tween the restructuring of the database and customer service. The main guiding principles of the service model modernization were as follows:

1. Introduction of the principle of self-service, both in the case of the job-seekers and for companies.
2. Digitization as a basis of high quality self-servicing (e.g. the procedure related to work permits, description of job contents and occupations as well as their medical requirements, all information concerning training, services, subsidies, provisions, and programs offered by the AFSZ, etc. are available via the portal of the AFSZ).
3. Contract-based cooperation with both employers and job-seekers (these “contracts” are a tool to establish, plan, and follow client relations more systematically).

The impact of the application of these guiding principles is manifold. Firstly, the autonomy of both the job-seekers and employers in using various services has increased significantly. Secondly, the amount of time necessary to satisfy the needs of the various clients has decreased significantly. As a result of the time saving, employees of the local labor market offices have more time to take care of clients not able to use the self-service. Although the amount of time used for service utilization decreased in the clients’ case, in the case of employees of the AFSZ it did not decrease due to the continuously growing administrative workload related to the legal environment of operations. In addition, the co-existence of paper-based and the digitized administration further increased the workload of the staff members of the local labor market offices.<sup>10</sup>

Evaluating the roles of the actors before the restructuring process, the activity of the AFSZ—as mentioned earlier—was not standardized nor carried out exclusively in-house, with the exception of training of job-seekers. The MP made it possible—via the above-mentioned standardization and database integration—to outsource several services to new actors active on the labor market (civic and other private organizations). More extensive use of outsourcing may intensify the networking activity of the AFSZ, which represents a new element in the VC.

The last dimension of the VC analysis is the identification and assessment of coordination patterns. Prior to the MP, a hierarchical form of coordination governed the activity of the AFSZ. As described earlier, this pattern of coordination is characterized by the creation and provision of services in-house (with the exception of training offered by job-seekers). Another driving factor of this form of coordination is the need to create and share non-coded knowledge. For example, in the practice of local labor market offices investigated, beside such forms of training as the on-the-job-training, learning by inter-

10 It is necessary to note that the 10% employment cut carried out in the National Employment Service in 2006 and the planned further 10% employment cut in 2007, will counterbalance or even jeopardize the expected workload savings effects of the MP.



acting, etc., a case study-based learning process is regularly organized for the staff-members. After the modernization process, the hierarchical pattern of coordination still dominates. However, the MP opened the road to new types of coordination by standardizing service-related procedures (protocols), client relations, and the wish to reduce the number of services. Through these changes the MP has an ambition to create a modular structure of services offered by the AFSZ.<sup>11</sup> A modular form of coordination enables outsourcing of various services that were previously organized in-house. It is the already initiated standardization process combined with methods of monitoring, auditing, and control of activities under preparation that create options for outsourcing.

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11 Product architectures generally vary from integral to modular. In integral product architectures, the functional elements of a product are tightly linked and optimized for a particular configuration. By contrast, in modular product architectures, the physical building blocks (or sub-systems) of the product are loosely coupled and designed to be relatively independent of one another because of standardized interfaces and visible design rules, which permit some components and sub-systems to be disaggregated and recombined into a larger number of product variations. [Gereffi – Humprey – Sturgeon, 2003: 6–7.]



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APPENDIX I:

WORKS Case Study Matrix: Sectors and Business Functions:

	R&D; Design	Production	Logistics	Customer Service	IT
Clothing in- dustry	Belgium#1 France#1 Germany#1 Portugal#1 Italy#1 Norway#1	Belgium#2 Portugal#2 Hungary#1 Italy#2 Greece#1	France#2 Germany#2 Netherlands#1 Hungary#2 Portugal#3 Norway#2		
Food industry (plus link with re- tailing)		Belgium#3 Bulgaria#1 Greece#2 Italy#3 Norway#3 Sweden#1	Belgium#4 Bulgaria#2 Greece#3 Netherlands#2 Sweden#2 UK#1		
Information & Commu- nication Technology:  Software	Austria#1 Belgium#5 France#3 Germany#3 Norway#4 UK#2	Austria#2 Bulgaria#3 Germany#4 Greece#4 Hungary#4 Sweden#3			



	R&D; Design	Production	Logistics	Customer Service	IT
Public administration: Information Services for Citizens				Austria#3 Bulgaria#4 (Public Employment Service) Belgium#6 Hungary#3 (National Employment Service) Italy#4 Sweden#4 (Public Employment Service) UK#3	Belgium#6 France#4 Germany#6 Netherlands#4 Sweden#6 Portugal#4 UK#4
Services of general interest: Postal services and Railways				Austria#4 Bulgaria#4 Germany#5 Greece#4 Netherlands#3 Sweden#5??	
Total (plan): 58	10 – 12	15 – 17	10 – 12	10 – 12	6

**APPENDIX 2:****The List of Interviewed Actors (n=14)**

Name	Sex	Function/ Department	Organization	Date of interview (2006)
A. V.	Male	Director	X County Labor Center	June 12
S. Sz.	Male	Senior Adviser	National Employment Office	July 31
M. N. B.	Female	Office Head	Y Local Labor Office	August 1
A. F.	Female	Responsible for Employer Relations	Y Local Labor Office	August 1
A. Sz. K.	Female	Responsible for Active Employment Tools	Y Local Labor Office	August 1



Name	Sex	Function/ Department	Organization	Date of interview (2006)
J. K.	Male	IT Manager	X County Labor Center	August 2
I. A.	Female	Department Head, Department of Unemployment Benefits	Y Local Labor Office	August 2
Zs. G.	Female	Job Seekers' Consultant	Y Local Labor Office	August 2
X. Y.	Male	Agent responsible for the job offer	Z Local Labor Office	August 10
X. Y.	Male	Agent responsible for the job offer	Z Local Labor Office	August 10
L. Cs.	Male	Administrator for unemployment benefits	W Local Labor Office	August 11
I. A.	Female	Responsible for Employer Relations	W Local Labor Office	August 11
E. A. M.	Female	Office Head	W Local Labor Office	August 11
B. P.	Female	Office Head	Z Local Labor Office	August 17

**APPENDIX 3:****Number of Registered Unemployed in Hungary, 1990–2004**

Year	Registered Unemployed	
	in thousands	rate in %
1990	47.7	n. d.
1991	227.3	4.1
1992	557.0	10.3
1993	671.8	12.9
1994	568.4	11.3
1995	507.7	10.6
1996	500.6	11.0
1997	470.1	10.5
1998	423.1	9.5
1999	409.5	9.7
2000	390.5	9.3
2001	364.1	8.5



Year	Registered Unemployed	
	in thousands	rate in %
2002	344.7	8.0
2003	357.2	8.3
2004	375.9	8.7

Source: Fazekas, K. – Koltay, J. (Editors) (2006) *The Hungarian Labor Market – Review and Analysis*, Budapest: Institute of Economics, Hungarian Academy of Sciences and Hungarian Employment Foundation, p. 249.